

CITY OF BEAVERTON

CITY COUNCIL

Scott Govitz	Mayor
Lois Mitchell	Councilman, Ward 1
Patrick Smith	Councilman, Ward 1
Nila Frei	Councilman, Ward 2
Terry Patsey	Councilman, Ward 2
Jerry Malosh	Councilman, Ward 3
Clark Wentz	Councilman, Ward 3

MANAGEMENT

Don Doering	City Manager
Beverley Dodd Miller	City Clerk
Tena Andrist	City Treasurer

CITY POPULATION-2000 CENSUS
1,106

STATE EQUALIZED VALUE-2004
\$18,934,750

STATE TAXABLE VALUE-2004
\$17,750,297

**CITY OF BEAVERTON
GLADWIN COUNTY, MICHIGAN**

**AUDITED FINANCIAL STATEMENTS
JUNE 30, 2005**

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Independent Auditors' Report

Members of the City Council
City of Beaverton
Gladwin County, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Beaverton, Gladwin County, Michigan (the "City"), as of and for the fifteen months ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Beaverton, Gladwin County, Michigan, as of June 30, 2005, and the respective changes in financial position for the fifteen months then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 2 through 6 and 34 through 36, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Midland, Michigan
September 16, 2005

**CITY OF BEAVERTON
GLADWIN COUNTY, MICHIGAN
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2005**

As management of the City of Beaverton, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fifteen months ended June 30, 2005.

Financial Highlights

- The net assets of the City increased at the close of the fifteen months ending June 30, 2005 by \$151.3 thousand. This was due primarily to the completion of a water capital project from proceeds of a State grant.
- During the year, the City's expenses were \$268.2 thousand more than the \$743.4 thousand generated in property taxes and other revenues for the governmental activities. Expenses exceeded revenues by \$199.3 thousand in the previous year.
- The City's net assets in its business-type activities increased \$334.0 thousand during the year, compared to an increase of \$43.7 thousand in the previous year.
- As of the close of the fifteen months ended June 30, 2005, the City's unrestricted net assets in its governmental activities was \$39.3 thousand or approximately 4% of current year expenses. Unrestricted net assets were \$138.7 thousand or approximately 18% of current year expenses in the previous year.

Overview of the Financial Statements

This annual report consists of three parts - management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide statements.

The *governmental funds* statements tell how general government services like public safety were financed in the short term as well as what remains for future spending.

**CITY OF BEAVERTON
GLADWIN COUNTY, MICHIGAN
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2005**

Proprietary fund statements offer short and long-term financial information about the activities the government operated like businesses, such as the hydroelectric, water and sewer systems.

Fiduciary fund statements provide information about financial relationships - like the tax collection activities of the City.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

The City has three kinds of funds:

- Governmental funds - Most of the City's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information in the notes to the financial statements.
- Proprietary funds - Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long and short-term financial information. In fact, the City's enterprise funds (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows. We use internal service funds (the other kind of proprietary fund) to report activities that provide supplies and services for the City's other programs and activities - such as the City's DPW Equipment Fund.
- Fiduciary funds - The City is the agent, or fiduciary, for tax collection purposes. The City is responsible for the collection and proper remittance of all property taxes. The City's fiduciary activity is reported in a separate statement of fiduciary net assets. We exclude this activity from the City's government-wide financial statements because the City cannot use these assets to finance its operations.

**CITY OF BEAVERTON
GLADWIN COUNTY, MICHIGAN
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2005**

Changes in Net Assets

The City's total revenues (excluding a 2005 federal grant of \$425.2 thousand) decreased \$5.0 thousand during the fiscal year. Approximately one quarter of the City's revenue comes from property taxes. The remaining revenue comes from state aid, user fees, and water, sewer and hydroelectric utility sales. The impact of state revenue cuts and the slow growth of property taxes is hoped to be off set by the growth in revenue produced by the hydroelectric fund.

Governmental Activities

Revenues for the City governmental activities excluding gravel streets remained relatively unchanged. Loss in property tax revenue and state revenue sharing were off set by increases in proprietary funds, fees charged and rent collected.

The City's management took the following steps to stabilize or lower expenses to help offset the continued slow decline in revenues.

- Changing employee coverage, to a PPO raising prescription deductible and becoming self insuring for optical and dental, and reduced health care costs.
- Canceling law enforcement contact with County Sheriff and restarting local police department. This action reduced a proposed \$50,000 cost increase for the Sheriff's contract and stabilized the budget impact of providing law enforcement activities.
- Improved reporting and bookkeeping procedures, which reduced duplication of effort, reduced late fees and better-informed city decision makers as to the status of city funds.
- Paid most interfund obligations, giving the City a more realistic view of each fund.
- Reduced compensatory time by establishing a policy related to accumulation and use. This reduced substitution of time by employees to cover various work tasks.

Proprietary funds

Revenues from the City's business-type activities increased \$50.1 thousand. The factors for the increase included:

- One full year of revenue produced by our renovated hydroelectric facility. Revenue generated by the facility has eliminated the debt caused by the repairs within two years.
- City personnel have replaced all old water meters with new meters thus increasing the revenue to the water and sewer systems.

**CITY OF BEAVERTON
GLADWIN COUNTY, MICHIGAN
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2005**

Financial Analysis of the City's Funds

As the city completed its fiscal year, its governmental funds reported a combined fund balance of \$219.7 thousand. This represents a \$222.8 thousand fund balance reduction from the last fiscal year. This decrease is primary due to:

- \$125.3 thousand spent from the gravel streets bond issue to pay for completion of the paving of local streets and current year debt service.
- \$114.6 thousand spent to set up our new local police department.

General Fund Budgetary Highlights

Over the course of the year, the City Council revised the budget several times. These budget amendments fall into two categories.

- Budget amendments in October and February to adjust revenue and expenditure figures.
- Transfer of monies from one fund to another to adjust fund shortfalls.

With these adjustments, actual general fund expenditures were \$45.9 thousand more than budgeted expenditures. Resources available were also reduced based on lower than expected revenue sharing and tax revenues.

The City's ending General Fund balance was reduced by \$133.8 thousand. The \$61.2 thousand remaining fund balance is 8.6% of actual, current year expenditures.

Capital Assets

At June 30, 2005, the City had a net investment of \$4,900.5 thousand in a broad range of capital assets, including police equipment, buildings, park facilities, and water and sewer infrastructure. This amounts to a net increase of \$275.2 thousand over the previous year. These figures do not reflect the value of the City's street network. The City has invested \$507.9 thousand in street improvements during the last three years. During the next fiscal year the street inventory will be completed and its value will be added to the City's statement of net assets.

Long Term Debt

At year end the city had approximately \$1,679.0 thousand in bonds and notes outstanding. This is a reduction of \$100.0 thousand from the last fiscal year. Bonded indebtedness is the result of bonds sold for the wastewater treatment plant improvements, water system expansions, and the gravel roads project.

**CITY OF BEAVERTON
GLADWIN COUNTY, MICHIGAN
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2005**

Economic Factors and Next Years Budget

- The level in state revenue sharing will continue to fall.
- Health care costs are expected to rise by 8%. Costs have been manageable because of the ability to spread most of the increase across all expense categories.
- General property taxes will continue to slightly decline while costs continue to rise. The combination of the Headlee Amendment and the effects of Proposition A are contributing to the continuing decline of the millage rate, which off sets any actual growth. The combination of Proposition A and Headlee Amendment continue to erode our millage rate and the age of the population handicaps the City in increasing taxable value. At some point in the future, we may have to go to the voters and ask for a rollback of the millage reduction.
- DDA property tax capture, while stagnant in fiscal 2005, will continue to grow based on industrial and commercial expansion. More administrative and project costs are being funded by the DDA, where applicable.

Funding for most City programs are under constant scrutiny. Reduction in employee hours continues to be a real possibility in addition to temporary layoffs. Each budget category will be monitored and adjusted if necessary. There are undesignated revenues generated by the hydroelectric facility that can be transferred into the General Fund to help offset some budget shortfalls.

The budget for fiscal 2006 calls for an increase in recreational fees of 4%. This is an attempt to bring the user fees in line with expenses. We have a new labor agreement defining pay structure and compensatory time, which will save money and absenteeism in the long run. We have signed contracts with all supervisors which defines job responsibilities and will eliminate overtime, thus saving money.

This is an important point considering the current impact of state revenue sharing and other funding sources.

Contacting the City Management

This financial report is intended to provide our citizens, customers, investors and creditors with a general overview of the City' finances. If you have questions about this report or need additional information, contact the City Manager, at P.O. Box 477, Beaverton, Michigan 48612-0477, call (989) 435-3511, or e-mail at beaverton@ejourney.com.

CITY OF BEAVERTON
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
June 30, 2005

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Downtown Development Authority
ASSETS				
Cash and cash equivalents	\$ 76,266	\$ 259,720	\$ 335,986	\$ 57,481
Accounts receivable, net	1,663	36,649	38,312	-
Taxes receivable, net	2,194	-	2,194	730
Assessments receivable, net	126,737	-	126,737	-
Due from other funds	1,000	10,000	11,000	-
Due from other governmental units	42,956	-	42,956	-
Inventory	-	10,645	10,645	-
Prepaid items	6,368	3,062	9,430	807
Restricted cash	-	158,500	158,500	-
Capital assets:				
Land	192,484	102,715	295,199	-
Buildings and improvements, net	238,070	-	238,070	-
Equipment, net	27,933	434	28,367	-
Infrastructure, net	-	4,338,846	4,338,846	-
Total capital assets	458,487	4,441,995	4,900,482	-
Total assets	715,671	4,920,571	5,636,242	59,018
LIABILITIES				
Accounts payable	18,738	13,509	32,247	471
Accrued expenses	4,662	5,524	10,186	-
Due to other funds	5,966	10,245	16,211	-
Due to other governmental units	8,126	-	8,126	-
Deposits and other liabilities	-	-	-	-
Long-term liabilities:				
Portion due or payable within one year:				
Bonds and contracts payable	30,000	20,000	50,000	15,000
Portion due or payable after one year:				
Bonds and contracts payable	410,000	1,219,000	1,629,000	300,000
Total liabilities	477,492	1,268,278	1,745,770	315,471
NET ASSETS				
Invested in capital assets, net of related debt	18,487	3,202,995	3,221,482	-
Restricted for:				
Streets, roads and bridges	49,762	-	49,762	-
Debt service	130,656	158,500	289,156	-
Capital projects	-	-	-	-
Unrestricted	39,274	290,798	330,072	(256,453)
Total net assets	\$ 238,179	\$ 3,652,293	\$ 3,890,472	\$ (256,453)

The accompanying notes are an integral part of these financial statements.

CITY OF BEAVERTON
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
For the Fifteen Months Ended June 30, 2005

Activities:	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	
					Governmental Activities	Business-Type Activities
Governmental:						
General government	\$ 274,602	\$ 9,634	\$ 21,899	\$ -	\$ (243,069)	\$ (243,069)
Public safety	150,592	3,029	-	-	(147,563)	(147,563)
Public works	434,364	46,020	-	-	(388,344)	(388,344)
Recreation and culture	91,602	37,103	-	-	(54,499)	(54,499)
Interest and fiscal charges	20,367	-	-	-	(20,367)	(20,367)
Total governmental activities	971,527	95,786	21,899	-	(853,842)	(853,842)
Business-type:						
Electric utility	207,260	116,550	-	-	\$ (90,710)	(90,710)
Sewer	297,193	293,113	-	-	(4,080)	(4,080)
Water	157,732	156,420	-	425,233	423,921	423,921
Total business-type activities	662,185	566,083	-	425,233	329,131	329,131
Total Primary Government	\$ 1,633,712	\$ 661,869	\$ 21,899	\$ 425,233	(853,842)	(524,711)
Component units:						
Downtown Development Authority	\$ 68,290	\$ -	\$ 12,250	\$ -		\$ (56,040)
General revenues:						
Property taxes, levied for general purposes				224,825	-	224,825
Property taxes, levied for fire protection				14,932	-	14,932
Property taxes, levied for roads and bridges				57,811	-	57,811
State aid				296,588	-	296,588
Interest earnings				2,861	1,546	4,407
Miscellaneous				28,731	48,744	77,475
Transfers				45,389	(45,389)	-
Total general revenues and transfers				671,137	4,901	676,038
Change in net assets				(182,705)	334,032	151,327
Net assets-beginning				420,884	3,318,261	3,739,145
Net assets-ending				\$ 238,179	\$ 3,652,293	\$ 3,890,472
						\$ (256,453)

The accompanying notes are an integral part of these financial statements.

CITY OF BEAVERTON
GOVERNMENTAL FUND BALANCE SHEET
June 30, 2005

	General Fund	Major Street Fund	Local Street Fund	Gravel Street Debt Service Fund	Gravel Street Capital Project Fund	Total
ASSETS						
Cash and cash equivalents	\$ 47,637	\$ 24,710	\$ -	\$ 3,919	\$ -	\$ 76,266
Accounts receivable, net	1,663	-	-	-	-	1,663
Taxes receivable, net	2,194	-	-	-	-	2,194
Assessment receivable, net	-	-	-	126,737	-	126,737
Due from other funds	1,000	-	-	-	-	1,000
Due from other governmental units	36,001	5,218	1,737	-	-	42,956
Prepaid items	5,888	295	185	-	-	6,368
Total assets	\$ 94,383	\$ 30,223	\$ 1,922	\$ 130,656	\$ -	\$ 257,184
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 17,135	\$ 178	\$ 1,425	\$ -	\$ -	\$ 18,738
Accrued expenses	4,535	83	44	-	-	4,662
Due to other funds	3,390	1,508	1,068	-	-	5,966
Due to other governmental units	8,126	-	-	-	-	8,126
Total liabilities	33,186	1,769	2,537	-	-	37,492
Fund balances:						
Reserved for:						
Prepaid items	5,888	-	-	-	-	5,888
Roads and streets	49,762	-	-	-	-	49,762
Unreserved and undesignated	5,547	28,454	(615)	130,656	-	164,042
Total fund balances	61,197	28,454	(615)	130,656	-	219,692
Total liabilities and fund balances	\$ 94,383	\$ 30,223	\$ 1,922	\$ 130,656	\$ -	\$ 257,184

The accompanying notes are an integral part of these financial statements.

CITY OF BEAVERTON
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2005

Total fund balances for governmental funds (Exhibit 4)	\$	219,692
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Total net assets reported for governmental activities in the statement of net assets is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:

Land	\$	192,484	
Buildings and improvements, net of \$530,973 accumulated depreciation		238,070	
Equipment, net of \$9,462 accumulated depreciation		<u>27,933</u>	
Total capital assets			458,487

Long-term liabilities applicable to the Township's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net assets. Balances at June 30, 2005 are:

2002 General Obligation Limited Tax Bonds	\$	(440,000)	<u>(440,000)</u>
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Total net assets of governmental activities (Exhibit 2)	\$	<u><u>238,179</u></u>
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The accompanying notes are an integral part of these financial statements.

CITY OF BEAVERTON
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES
IN FUND BALANCES
For the Fifteen Months Ended June 30, 2005

	General Fund	Major Street Fund	Local Street Fund	Gravel Street Debt Service Fund	Gravel Street Capital Project Fund	Total
REVENUES						
Property taxes and related fees	\$ 297,568	\$ -	\$ -	\$ -	\$ -	\$ 297,568
Licenses and permits	2,167	-	-	-	-	2,167
State grants	21,899	-	-	-	-	21,899
State aid	194,081	74,412	28,095	-	-	296,588
Charges for services	85,547	7,210	-	-	-	92,757
Interest and dividends	2,185	323	305	38	10	2,861
Rents and royalties	17,511	-	-	-	-	17,511
Fines and forfeits	3,029	-	-	-	-	3,029
Special assessments, net	-	-	-	(139)	-	(139)
Miscellaneous	9,192	-	-	-	-	9,192
Total revenues	633,179	81,945	28,400	(101)	10	743,433
EXPENDITURES						
General government	266,167	-	-	-	-	266,167
Public safety	144,377	-	-	-	-	144,377
Public works	176,637	63,191	59,684	-	125,352	424,864
Recreation and culture	85,974	-	-	-	-	85,974
Capital outlay	39,852	-	-	-	-	39,852
Debt service	-	-	-	50,367	-	50,367
Total expenditures	713,007	63,191	59,684	50,367	125,352	1,011,601
Excess (deficiency) of revenues over expenditures	(79,828)	18,754	(31,284)	(50,468)	(125,342)	(268,168)
OTHER FINANCING SOURCES (USES)						
Transfers-in	-	-	11,200	23,137	99,389	133,726
Transfers-out	(54,000)	(23,200)	-	-	(11,137)	(88,337)
Total other financing sources and uses	(54,000)	(23,200)	11,200	23,137	88,252	45,389
Net change in fund balances	(133,828)	(4,446)	(20,084)	(27,331)	(37,090)	(222,779)
Fund balances-beginning	195,025	32,900	19,469	157,987	37,090	442,471
Fund balances-ending	\$ 61,197	\$ 28,454	\$ (615)	\$ 130,656	\$ -	\$ 219,692

The accompanying notes are an integral part of these financial statements

CITY OF BEAVERTON
RECONCILIATION OF THE STATEMENT OF REVENUE,
EXPENDITURES, AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
For the Fifteen Months Ended June 30, 2005

Net change in fund balances - total governmental funds (Exhibit 5) \$ (222,779)

The change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$39,852) exceeded depreciation (\$29,778) in the current period. 10,074

Debt proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.

Repayments:

2002 General Obligation Limited Tax Bonds	\$ 30,000	30,000
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Change in net assets of governmental activities (Exhibit 3)	\$ (182,705)	
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The accompanying notes are an integral part of these financial statements.

CITY OF BEAVERTON
PROPRIETARY FUND STATEMENT OF NET ASSETS
June 30, 2005

	Enterprise Funds				DPW Equipment
	Hydroelectric Fund	Sewer Fund	Water Fund	Total	Internal Service Fund
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 4,300	\$ 227,515	\$ 27,905	\$ 259,720	\$ 2,434
Accounts receivable, net	15,593	15,514	5,542	36,649	-
Due from other funds	-	10,000	-	10,000	6,211
Inventory	-	1,136	9,509	10,645	-
Prepaid items	730	1,142	1,190	3,062	-
Total current assets	20,623	255,307	44,146	320,076	8,645
Noncurrent assets:					
Restricted cash	-	77,500	81,000	158,500	-
Capital assets:					
Land	-	102,115	600	102,715	-
Equipment, net	-	-	434	434	107,414
Infrastructure, net	453,241	2,583,271	1,302,334	4,338,846	-
Total noncurrent assets	453,241	2,762,886	1,384,368	4,600,495	107,414
Total assets	473,864	3,018,193	1,428,514	4,920,571	116,059
LIABILITIES					
Liabilities:					
Accounts payable	6,262	2,811	4,436	13,509	6,071
Accrued expenses	100	2,693	2,731	5,524	-
Due to other funds	10,000	158	87	10,245	-
Capital lease obligation	-	-	-	-	13,348
Bonds and contracts payable	-	15,000	5,000	20,000	16,597
Total current liabilities	16,362	20,662	12,254	49,278	36,016
Noncurrent liabilities					
Bonds and contracts payable	-	1,056,000	163,000	1,219,000	-
Total noncurrent liabilities	-	1,056,000	163,000	1,219,000	-
Total liabilities	16,362	1,076,662	175,254	1,268,278	36,016
NET ASSETS					
Invested in capital assets, net of related debt	453,241	1,614,386	1,135,368	3,202,995	77,469
Restricted for debt obligations	-	77,500	81,000	158,500	-
Unrestricted	4,261	249,645	36,892	290,798	2,574
Total net assets	\$ 457,502	\$ 1,941,531	\$ 1,253,260	\$ 3,652,293	\$ 80,043

The accompanying notes are an integral part of these financial statements.

CTTY OF BEAVERTON
PROPRIETARY FUND STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS
For the Fifteen Months Ended June 30, 2005

	Enterprise Funds				DPW Equipment Internal Service Fund
	Hydroelectric Fund	Sewer Fund	Water Fund	Total	
OPERATING REVENUES					
Charges for services	\$ 116,550	\$ 293,113	\$ 156,420	\$ 566,083	\$ 81,716
Miscellaneous	48,640	104	-	48,744	6,651
Total operating revenues	165,190	293,217	156,420	614,827	88,367
OPERATING EXPENSES					
Salaries and wages	32,194	71,772	42,948	146,914	-
Payroll taxes	2,475	5,426	3,202	11,103	-
Employee benefits	13,734	26,514	18,946	59,194	-
Supplies	1,471	2,195	4,834	8,500	10,061
Postage	-	450	1,373	1,823	-
Contracted services	10,100	1,225	70	11,395	-
Insurance	1,229	1,581	1,602	4,412	-
Bank fees	346	52	-	398	-
Telephone and communications	2,132	2,859	1,281	6,272	-
Travel, meals and lodging	-	-	25	25	-
Utilities	4,751	21,079	6,837	32,667	-
Repair and maintenance	91,203	14,104	22,763	128,070	7,192
Equipment rental	2,058	3,992	2,512	8,562	-
Miscellaneous	-	250	786	1,036	-
Depreciation	45,567	93,305	38,053	176,925	51,111
Total operating expenses	207,260	244,804	145,232	597,296	68,364
Operating income (loss)	(42,070)	48,413	11,188	17,531	20,003
NONOPERATING REVENUES (EXPENSES)					
Investment earnings	103	176	1,267	1,546	294
Interest expense	-	(52,389)	(12,500)	(64,889)	(1,703)
Total nonoperating revenue (expenses)	103	(52,213)	(11,233)	(63,343)	(1,409)
Income (loss) before capital grants and transfers	(41,967)	(3,800)	(45)	(45,812)	18,594
Capital grants	-	-	425,233	425,233	-
Transfers (out)	-	-	(45,389)	(45,389)	-
Changes in net assets	(41,967)	(3,800)	379,799	334,032	18,594
Total net assets-beginning	499,469	1,945,331	873,461	3,318,261	61,449
Total net assets-ending	\$ 457,502	\$ 1,941,531	\$ 1,253,260	\$ 3,652,293	\$ 80,043

The accompanying notes are an integral part of these financial statements.

CITY OF BEAVERTON
PROPRIETARY FUND STATEMENT OF CASH FLOWS
For the Fifteen Months Ended June 30, 2005

	Enterprise Funds				DPW Equipment Internal Service Fund
	Hydroelectric Fund	Sewer Fund	Water Fund	Total	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 114,029	\$ 326,893	\$ 176,341	\$ 617,263	\$ 81,716
Payments to suppliers	(108,211)	(43,860)	(36,175)	(188,246)	(11,443)
Payments to employees	(48,576)	(102,856)	(63,993)	(215,425)	-
Internal activity-payments from (to) other funds	(2,058)	(3,992)	(2,512)	(8,562)	-
Other receipts	48,640	104	-	48,744	-
Net cash provided (used) by operating activities	3,824	176,289	73,661	253,774	70,273
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers (out)	-	-	(45,389)	(45,389)	-
Interfund loans-proceeds and collections	(15,247)	715	(2,253)	(16,785)	(14,584)
Net cash provided by noncapital financing activities	(15,247)	715	(47,642)	(62,174)	(14,584)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Purchases and construction of capital assets	-	(517)	(440,591)	(441,108)	(16,950)
Proceeds from sales of equipment	-	-	-	-	6,651
Proceeds from capital grants	-	-	425,233	425,233	-
Principal paid on capital debt	-	(18,000)	(5,000)	(23,000)	(45,426)
Interest paid on capital debt	-	(52,389)	(12,500)	(64,889)	(1,703)
Net cash used by capital and related financing activities	-	(70,906)	(32,858)	(103,764)	(57,428)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest and dividends	103	176	1,267	1,546	294
Net increase in cash and cash equivalents	(11,320)	106,274	(5,572)	89,382	(1,445)
Balances-beginning of the year	15,620	198,741	114,477	328,838	3,879
Balances-end of the year	\$ 4,300	\$ 305,015	\$ 108,905	\$ 418,220	\$ 2,434
Displayed as:					
Cash and cash equivalents	\$ 4,300	\$ 227,515	\$ 27,905	\$ 259,720	\$ 2,434
Restricted cash	-	77,500	81,000	158,500	-
	\$ 4,300	\$ 305,015	\$ 108,905	\$ 418,220	\$ 2,434
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss)	\$ (42,070)	\$ 48,413	\$ 11,188	\$ 17,531	\$ 20,003
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation expense	45,567	93,305	38,053	176,925	51,111
Gain on sales of equipment	-	-	-	-	(6,651)
Change in assets and liabilities:					
Receivables, net	(2,521)	33,780	19,921	51,180	-
Prepaid items	(278)	(420)	30	(668)	-
Accounts payable	3,299	355	3,366	7,020	5,930
Accrued expenses	(173)	856	1,103	1,786	(120)
Net cash provided (used) by operating activities	\$ 3,824	\$ 176,289	\$ 73,661	\$ 253,774	\$ 70,273

The accompanying notes are an integral part of these financial statements.

CITY OF BEAVERTON
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
CURRENT TAX FUND
June 30, 2005

ASSETS

Cash and cash equivalents	\$ 1,224
Total assets	<u>1,224</u>

LIABILITIES

Due to other governmental units	224
Due to other funds	<u>1,000</u>
Total liabilities	<u>1,224</u>

NET ASSETS	<u><u>\$ -</u></u>
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The accompanying notes are an integral part of these financial statements.

**CITY OF BEAVERTON
GLADWIN COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2005**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City:

A. Reporting Entity

The City is governed by an elected seven-member council. The accompanying financial statements present the City and its component unit, an entity for which the government is considered to be financially accountable. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

Discretely Presented Component Unit

The following component unit is reported within the "component unit" column in the combined financial statements. The discretely presented component unit is an entity that is legally separate from the City, but for which the unit is financially accountable, or its relationship with the City is such that exclusion would cause the unit's financial statements to be misleading or incomplete.

Downtown Development Authority—The Downtown Development Authority was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Authority's governing body, which consists of five individuals, is selected by the City Council. In addition, the Authority's budget is approved by the City Council. The Authority does not issue separate financial statements. Detail information can be obtained by contracting the City Clerk.

Related Organization

Fire Protection District—The City, in conjunction with Beaverton and Tobacco Townships, entered into an agreement to create the Beaverton Area Fire Protection District. The Fire Protection District is a legally separate organization established to provide fire protection services to the three communities.

**CITY OF BEAVERTON
GLADWIN COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2005**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contribution that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and the fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**CITY OF BEAVERTON
GLADWIN COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2005**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation
(Continued)**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgements are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual—that is, when they become both measurable and available to finance expenditures of the fiscal period. Revenue susceptible to accrual include property taxes, state revenue sharing and interest.

The City property tax is levied each December 1st on the taxable valuation of property (as defined by State statutes) located in the City as of the preceding December 31st.

The 2004 taxable valuation of the City totaled \$17.8 million, on which ad valorem taxes levied consisted of 14.6 mills for City operating purpose, 1.9967 mills for roads, .9733 mills for fire protection, and 2.0219 mills for county roads and bridges. These amounts are recognized in the General Fund as property taxes and related fees.

The government reports the following major funds:

The General Fund is the governments primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Street Fund accounts for the receipt and expenditures of State motor fuel taxes which are earmarked by law for major street and highway purposes.

The Local Street Fund is used to account for the receipt and expenditure of State motor fuel taxes which are earmarked by law for local street and highway purposes.

**CITY OF BEAVERTON
GLADWIN COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2005**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation
(Continued)**

The government reports the following major proprietary funds:

The Hydroelectric Fund is used to record the revenues and expenses for the operation of a hydroelectric system. Capital assets are recorded within the fund and depreciation is charged.

The Sewer Fund is used to record the revenues and expenses for the operation of a sewer system. Capital assets are recorded within the fund and depreciation is charged.

The Water Fund is used to record the revenues and expenses for the operation of a water system. Capital assets are recorded within the fund and depreciation is charged.

Additionally, the government reports the following fund type:

The DPW Equipment Fund is an internal service fund, which accounts for major machinery and equipment purchases and maintenance to provide services to other departments of the government on a cost reimbursement basis.

The Current Tax Collection Fund is used to account for resources held by the City in a purely custodial capacity. Money in this fund is from current tax and special assessment collections. Timely distribution to the appropriate fund and local unit must be made in accordance with Section 43 of the General Property Tax Act.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected to also follow private-sector standards issued after November 30, 1989 for its business-type activities.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

**CITY OF BEAVERTON
GLADWIN COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2005**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation
(Continued)**

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relate to charges to customers for sales and services. The sewer and water funds also recognize the portion of tap fees intended to recover current costs as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

D. Assets, Liabilities, and Net Assets

Bank Deposits and Investments—Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables—In general, outstanding balances between funds are reported as "due to/from other funds. Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds.

All trade and property tax receivables are shown net of allowance for uncollectible amounts. Property taxes are levied on each December 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

Inventories and Prepaid Items—Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect cost applicable to future years and are recorded as prepaid items in the government-wide and fund statements.

Restricted Assets—The revenue bonds of the enterprise funds require amounts to be set aside for construction, debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets.

**CITY OF BEAVERTON
GLADWIN COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2005**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, and Net Assets

Capital Assets—Capital assets, which include property, plant, equipment and infrastructure assets are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$500 (unless a the asset is a computer or a firearm) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Interest incurred, if any, during the construction of capital assets of business-type activities is included in the capitalized value of the assets constructed.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building improvements	15 to 30 years
Sewer and water systems	50 to 75 years
Office equipment	5 to 10 years
Computer equipment	3 to 5 years

Compensated Absences (Vacation and Sick Leave)—It is the City's policy to permit employees to accumulate earned but unused personal days and vacation benefits. All vacation and personal day pay is accrued when incurred in the government-wide financial statements.

Long-Term Obligations—In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**CITY OF BEAVERTON
GLADWIN COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2005**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, and Net Assets

Fund Equity—In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations, if any, of fund balance represent tentative management plans that are subject to change.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information—Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds except the debt service funds. All annual appropriations lapse at fiscal year end. The budget document presents information by fund, function, department or activity, and line items. The legal level of budgetary control adopted by the governing body is the department or activity level.

Excess of Expenditures Over Appropriations in Budgeted Funds—During the year, the City incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated, as follows:

<u>Budgeted Item</u>	<u>Budget Appropriation</u>	<u>Actual Expenditure</u>
General Fund—City Council	\$ 8,120	\$ 10,278
General Fund—City Manager	48,415	53,868
General Fund—Buildings and Grounds	9,170	9,448
General Fund—Finance and Administration	120,747	124,916
General Fund—Police Department	112,855	114,568
General Fund—Public Works	104,020	113,035
General Fund—Garbage Collection	41,970	41,984
General Fund—Parks and Recreation	79,712	85,974
General Fund—Capital Outlay	20,954	39,852
Major Street Fund—Expenditures	62,510	63,191

**CITY OF BEAVERTON
GLADWIN COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2005**

NOTE 3. DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the City to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The City is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers acceptances of United States banks' commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The City Council has designated three banks for the deposit of City funds. The investment policy adopted by the council in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and certificates of deposit, but not the remainder of State statutory as listed above.

The City's deposits and investment policy are in accordance with statutory authority.

At year-end, the City's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-Type Funds	Fiduciary Funds	Total Primary Government	Component Unit
Cash and cash equivalents	\$ 76,266	\$ 259,720	\$ 1,224	\$ 337,210	\$ 57,481
Restricted assets	-	158,500	-	158,500	-
Total	\$ 76,266	\$ 418,220	\$ 1,224	\$ 495,710	\$ 57,481

The breakdown between deposits and investments is as follows:

	Primary Government	Component Unit
Bank Deposits (checking and savings, certificate of deposit)	\$ 495,610	\$ 57,481
Petty Cash and Cash on Hand	100	-
Total	\$ 495,710	\$ 57,481

**CITY OF BEAVERTON
GLADWIN COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2005**

NOTE 3. DEPOSITS AND INVESTMENTS (Continued)

The bank balance of the primary government deposits is \$517,758, of which \$158,544 is covered by federal deposit insurance. The component unit's deposit had a bank balance of \$58,288 all of which is covered by federal deposit insurance.

NOTE 4. CAPITAL ASSETS

Capital asset activity of the primary government for the current period was as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Not Being Depreciated				
Land	\$ 192,484	\$ -	\$ -	\$ 192,484
Capital Assets Being Depreciated				
Buildings and Improvements	751,645	17,398	-	769,043
Equipment - Police Department	10,441	8,054	-	18,495
Other Capital Assets	4,500	14,400	-	18,900
Subtotal	766,586	39,852	-	806,438
Less Accumulated Depreciation for				
Buildings and Improvements	508,370	22,603	-	530,973
Equipment - Police Department	787	4,340	-	5,127
Other Capital Assets	1,500	2,835	-	4,335
Subtotal	510,657	29,778	-	540,435
Net Capital Assets Being Depreciated	255,929	10,074	-	266,003
Governmental Activities Capital Assets-Net of Depreciation	\$ 448,413	\$ 10,074	\$ -	\$ 458,487

**CITY OF BEAVERTON
GLADWIN COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2005**

NOTE 4. CAPITAL ASSETS (Continued)

Business-Type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Not Being Depreciated				
Land	\$ 102,715	\$ -	\$ -	\$ 102,715
Capital Assets Being Depreciated				
Equipment	526	-	-	526
Infrastructure	5,741,581	441,108	-	6,182,689
Subtotal	5,742,107	441,108	-	6,183,215
Less Accumulated Depreciation for				
Equipment	27	65	-	92
Infrastructure	1,666,983	176,860	-	1,843,843
Subtotal	1,667,010	176,925	-	1,843,935
Net Capital Assets Being Depreciated	4,075,097	264,183	-	4,339,280
Business-Type Activities Capital Assets-Net of Depreciation	<u>\$ 4,177,812</u>	<u>\$ 264,183</u>	<u>\$ -</u>	<u>\$ 4,441,995</u>

Depreciation expense was charged to programs of the City as follows:

Governmental Activities	
General Government	\$ 8,435
Public Safety	6,215
Public Works	9,500
Recreation and Culture	5,628
Total Governmental Activities	<u>\$ 29,778</u>
Business-Type Activities	
Hydroelectric	\$ 45,567
Sewer	93,305
Water	38,053
Total Business-Type Activities	<u>\$ 176,925</u>

**CITY OF BEAVERTON
GLADWIN COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2005**

NOTE 5. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances is as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	\$ 1,000	General	\$ 3,390
Sewer	10,000	Major Street	1,508
Internal Service	6,211	Local Street	1,068
		Hydroelectrical	10,000
		Sewer	158
		Water	87
		Tax Collection	1,000
Total	<u>\$ 17,211</u>	Total	<u>\$ 17,211</u>

Interfund Transfers

<u>Fund</u>	<u>Transfers Out</u>	<u>Fund</u>	<u>Transfers In</u>
General	\$ 54,000	Local Street	\$ 11,200
Major Street	23,200	Debt Service	23,137
Capital Project	11,137	Capital Project	99,389
Water	45,389		
Total	<u>\$ 133,726</u>	Total	<u>\$ 133,726</u>

**CITY OF BEAVERTON
GLADWIN COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2005**

NOTE 6. LEASES

Capital Lease—The City has entered into a lease agreement as lessee for financing the purchase of street sweeping equipment. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the net present value of the future minimum lease payments as of the inception date. The future minimum lease obligations and the net present value is as follows:

<u>Year Ended June 30,</u>	
2006	\$ 15,067
Total Minimum Lease Payments	15,067
Less: Amount Representing Interest	1,719
Net Present Value	<u>\$ 13,348</u>

NOTE 7. LONG-TERM DEBT

The government issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. County contractual agreements and installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties that directly benefitted from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the government is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

**CITY OF BEAVERTON
GLADWIN COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2005**

NOTE 7. LONG-TERM DEBT (Continued)

Bond and contractual agreements can be summarized as follows:

	<u>Interest Rate</u>	<u>Principal Matures</u>	<u>Beginning Balance</u>	<u>Additions (Reductions)</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities						
General Obligation Bonds						
2002 Gravel Street	3.65 to 4.90%	April 2017	<u>\$ 470,000</u>	<u>\$ (30,000)</u>	<u>\$ 440,000</u>	<u>\$ 30,000</u>
Business-Type Activities						
Revenue Bonds						
1981 Water Line	5.00%	March 2022	\$ 70,000	\$ (3,000)	\$ 67,000	\$ 3,000
1984 Water Line	7.125%	March 2022	103,000	(2,000)	101,000	2,000
1992 Wastewater Plant	5.00%	March 2032	1,089,000	(18,000)	1,071,000	15,000
			<u>\$ 1,262,000</u>	<u>\$ (23,000)</u>	<u>\$ 1,239,000</u>	<u>\$ 20,000</u>
Internal Service Fund						
Purchase Contract						
2002 Truck	3.90%	March 2007	<u>\$ 46,955</u>	<u>\$ (30,358)</u>	<u>\$ 16,597</u>	<u>\$ 16,597</u>
Component Unit						
General Obligation Bonds						
2001 DDA Streetscape	4.558%	December 2016	<u>\$ 330,000</u>	<u>\$ (15,000)</u>	<u>\$ 315,000</u>	<u>\$ 15,000</u>

Scheduled principal maturities of long-term debt for years subsequent to June 30, 2005 are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Internal Service Fund</u>	<u>Component Unit</u>
2006	\$ 30,000	\$ 20,000	\$ 16,597	\$ 15,000
2007	30,000	20,000	-	20,000
2008	30,000	20,000	-	20,000
2009	30,000	20,000	-	20,000
2010	30,000	20,000	-	20,000
Thereafter	290,000	1,139,000	-	220,000
Total	<u>\$ 440,000</u>	<u>\$ 1,239,000</u>	<u>\$ 16,597</u>	<u>\$ 315,000</u>

Interest expense for the fifteen months totaled \$108,739.

**CITY OF BEAVERTON
GLADWIN COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2005**

NOTE 8. SEGMENT INFORMATION

The City issued revenue bonds to finance water and sewer system improvements. Summary financial information for the sewer and water departments are presented below:

Condensed Statement of Net Assets:

	Sewer	Water
Assets		
Current Assets	\$ 245,307	\$ 44,146
Due From Other Funds	10,000	-
Restricted Assets	77,500	81,000
Capital Assets	2,685,386	1,303,368
Total Assets	3,018,193	1,428,514
Liabilities		
Current Liabilities	20,504	12,167
Due to Other Funds	158	87
Noncurrent Liabilities	1,056,000	163,000
Total Liabilities	1,076,662	175,254
Net Assets		
Invested in Capital Assets	1,614,386	1,135,368
Restricted	77,500	81,000
Unrestricted	249,645	36,892
Total Net Assets	\$ 1,941,531	\$ 1,253,260

**CITY OF BEAVERTON
GLADWIN COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2005**

NOTE 8. SEGMENT INFORMATION (Continued)

Condensed Statement of Revenue, Expenses, and Changes in Net Assets:

	Sewer	Water
Operating Revenues	\$ 293,217	\$ 156,420
Depreciation Expense	93,305	38,053
Other Operating Expenses	151,499	107,179
Operating Income	48,413	11,188
Nonoperating Revenue (Expense)		
Investment Earnings	176	1,267
Interest Expense	(52,389)	(12,500)
Capital Grants	-	425,233
Transfers	-	(45,389)
Change in Net Assets	(3,800)	379,799
Beginning Net Assets	1,945,331	873,461
Total Net Assets	<u>\$ 1,941,531</u>	<u>\$ 1,253,260</u>

Condensed Statement of Cash Flows:

	Sewer	Water
Net Cash Provided by (Used in)		
Operating Activities	\$ 176,289	\$ 73,661
Noncapital Financing Activities	715	(47,642)
Capital and Related Financing Activities	(70,906)	(32,858)
Investing Activities	176	1,267
Net Increase (Decrease)	106,274	(5,572)
Beginning Cash and Cash Equivalents	198,741	114,477
Ending Cash and Cash Equivalents	<u>\$ 305,015</u>	<u>\$ 108,905</u>

**CITY OF BEAVERTON
GLADWIN COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2005**

NOTE 9. RESTRICTED ASSETS

The balances of the restricted asset accounts in the enterprise funds are as follows:

	Sewer	Water
Operating Activities		
Improvement and Replacement Account	\$ -	\$ 21,000
Bond Reserve	77,500	60,000
Total Restricted Assets	<u>\$ 77,500</u>	<u>\$ 81,000</u>

NOTE 10. RISK MANAGEMENT

The City is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers compensation). The City has purchased commercial insurance for these types of claims. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

NOTE 11. PENSION PLAN

The City has a contributory Individual Retirement Account annuity plan covering union employees, who are full-time, age twenty-one and over, and employed with the City for at least one year. The City's policy is to contribute 7.5 percent of the annual salaries of covered employees into this plan. The City's pension expense for the fifteen months ended June 30, 2005, was \$12,1315.

The City also has a Money Plan and Trust plan for all full-time, administrative employees. The City's policy is to contribute 7.5 percent of the annual salaries of covered employees into this plan. The City's expense under this plan for the fifteen months ended June 30, 2005, was \$1,724.

NOTE 12. DEFERRED COMPENSATION PLAN

The City offers for all its full-time employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plans are held in trust, as described in IRC Section 457 (g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the employer (City) for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account, and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the City's financial statements.

**CITY OF BEAVERTON
GLADWIN COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2005**

NOTE 12. DEFERRED COMPENSATION PLAN (Continued)

A summary of the plan's investment activity for the fifteen months ended June 30, 2005, follows:

Balance - April 1, 2004	\$ 9,953
Employer Contributions	4,200
Rollover Contributions	104,040
Interest and Market Gains	4,138
Adjustments/Fees	-
Balance - June 30, 2005	<u>\$ 122,331</u>

NOTE 13. VALUATION OF CITY STREETS

Management has elected to utilize the transition option in the implementation of GASB Statement Number 34 for the valuation of the City's streets. Management plans to capitalize the value of its streets as an infrastructure asset in its June 30, 2006 financial statements.

CITY OF BEAVERTON
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

For the Fifteen Months Ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes and related fees	\$ 292,395	\$ 292,395	\$ 297,568	\$ 5,173
Licenses and permits	1,962	1,962	2,167	205
State grants	7,249	7,249	21,899	14,650
State aid	188,844	188,844	194,081	5,237
Charges for services	95,060	95,060	85,547	(9,513)
Interest and dividends	2,400	2,400	2,185	(215)
Rents and royalties	15,000	15,000	17,511	2,511
Fines and forfeits	3,451	3,451	3,029	(422)
Miscellaneous	10,570	10,570	9,192	(1,378)
Total revenues	616,931	616,931	633,179	16,248
EXPENDITURES				
General Government:				
City council	8,120	8,120	10,278	(2,158)
City manager	48,415	48,415	53,868	(5,453)
Treasurer	29,138	29,138	29,116	22
Assessing	11,362	11,362	10,436	926
Clerk	4,488	4,488	4,408	80
Elections	2,791	2,791	2,489	302
Board of review	550	550	484	66
Cemetery	13,319	13,319	13,181	138
Buildings and grounds	9,170	9,170	9,448	(278)
Finance and administration	120,747	120,747	124,916	(4,169)
All other general government	7,756	7,756	7,543	213
Public Safety:				
Fire protection contract	29,830	29,830	29,809	21
Police department	112,855	112,855	114,568	(1,713)
Public Works:				
Public works	104,020	104,020	113,035	(9,015)
Highways and streets	1,900	1,900	1,702	198
Garbage collection	41,970	41,970	41,984	(14)
Street lights	20,000	20,000	19,916	84
Recreation and Culture:				
Parks and recreation	79,712	79,712	85,974	(6,262)
Capital Outlay:				
General government	12,954	12,954	31,798	(18,844)
Police department	8,000	8,000	8,054	(54)
Total expenditures	667,097	667,097	713,007	(45,910)
Deficiency of revenues over expenditures	(50,166)	(50,166)	(79,828)	(29,662)
OTHER FINANCING SOURCES (USES)				
Transfers-in	104,166	104,166	-	(104,166)
Transfers-out	(54,000)	(54,000)	(54,000)	-
Total other financing sources and uses	50,166	50,166	(54,000)	(104,166)
Net change in fund balances	-	-	(133,828)	(133,828)
Fund balances-beginning	195,025	195,025	195,025	-
Fund balances-ending	\$ 195,025	\$ 195,025	\$ 61,197	\$ (133,828)

CITY OF BEAVERTON
BUDGETARY COMPARISON SCHEDULE
MAJOR STREET
For the Fifteen Months Ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
State aid	\$ 77,400	\$ 77,400	\$ 74,412	\$ (2,988)
Charges for services	7,210	7,210	7,210	-
Interest and dividends	290	290	323	33
Total revenues	84,900	84,900	81,945	(2,955)
EXPENDITURES				
Salaries and wages	19,000	19,000	17,387	1,613
Payroll taxes	1,321	1,321	1,327	(6)
Employee benefits	7,329	7,329	7,053	276
Contracted services	475	475	463	12
Insurance	2,025	2,025	1,422	603
Engineering costs	1,820	1,820	5,921	(4,101)
Equipment rental	15,750	15,750	15,787	(37)
Repairs and maintenance	14,790	14,790	13,938	852
Miscellaneous	-	-	(107)	107
Total expenditures	62,510	62,510	63,191	(681)
Excess of revenues over expenditures	22,390	22,390	18,754	(3,636)
OTHER FINANCING SOURCES (USES)				
Transfers-in	810	810	-	(810)
Transfers-out	(23,200)	(23,200)	(23,200)	-
Total other financing sources and uses	(22,390)	(22,390)	(23,200)	(810)
Net change in fund balances	-	-	(4,446)	(4,446)
Fund balances-beginning	32,900	32,900	32,900	-
Fund balances-ending	\$ 32,900	\$ 32,900	\$ 28,454	\$ (4,446)

CITY OF BEAVERTON
BUDGETARY COMPARISON SCHEDULE
LOCAL STREET
For the Fifteen Months Ended June 30, 2005

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES				
State aid	\$ 33,205	\$ 33,205	\$ 28,095	\$ (5,110)
Interest and dividends	235	235	305	70
Total revenues	<u>33,440</u>	<u>33,440</u>	<u>28,400</u>	<u>(5,040)</u>
EXPENDITURES				
Salaries and wages	21,450	21,450	17,515	3,935
Payroll taxes	1,700	1,700	1,353	347
Employee benefits	3,725	3,725	3,482	243
Supplies	120	120	117	3
Contracted services	7,500	7,500	7,252	248
Insurance	890	890	881	9
Engineering costs	2,000	2,000	2,019	(19)
Equipment rental	23,860	23,860	22,262	1,598
Repairs and maintenance	5,400	5,400	4,803	597
Total expenditures	<u>66,645</u>	<u>66,645</u>	<u>59,684</u>	<u>6,961</u>
Deficiency of revenues over expenditures	<u>(33,205)</u>	<u>(33,205)</u>	<u>(31,284)</u>	<u>1,921</u>
OTHER FINANCING SOURCES (USES)				
Transfers-in	33,205	33,205	11,200	(22,005)
Total other financing sources and uses	<u>33,205</u>	<u>33,205</u>	<u>11,200</u>	<u>(22,005)</u>
Net change in fund balances	-	-	(20,084)	(20,084)
Fund balance (deficit) beginning	<u>19,469</u>	<u>19,469</u>	<u>19,469</u>	<u>-</u>
Fund balances-ending	<u>\$ 19,469</u>	<u>\$ 19,469</u>	<u>\$ (615)</u>	<u>\$ (20,084)</u>

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL
CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the City Council
City of Beaverton
Gladwin County, Michigan

We have audited the financial statements for the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Beaverton, Gladwin County, Michigan, as of and for the fifteen months ended June 30, 2005, which collectively comprise the City of Beaverton, Gladwin County, Michigan's basic financial statements, and have issued our report thereon dated September 16, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Beaverton's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material affect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings and questioned costs.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Beaverton internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weakness. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the City of Beaverton in a separate letter dated September 16, 2005.

This report is intended for the information of the City Council, management, the State of Michigan, and GMAC Commercial Mortgage Corporation and is not intended to be and should not be used by anyone other than these specified parties. However, this document is a public record and its distribution is not limited.

Burnside & Leg. & P.C.

Midland, Michigan
September 16, 2005

**CITY OF BEAVERTON
GLADWIN COUNTY, MICHIGAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Fifteen Months Ended June 30, 2005**

COMPLIANCE

Appropriations in Budgetary Funds

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. We noted during our audit that the City had incurred expenditures in excess of the amount appropriated in various activity centers of the General Fund and the Major Street Fund.

MANAGEMENT'S RESPONSE

Management of the City will address the above issue by more closely monitoring the budget to actual expenses in all funds and having the City Council approve an appropriate budget amendment when necessary.